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SUBJECT: Despite Potential, Leading Wind Developer Not Bullish on Egypt's Renewable Energy Prospects

1. (SBU) Key Points:

--A leading Middle East wind energy company envisions tremendous potential for renewable energy in Egypt but blames government inaction and unwillingness to support business initiatives as the main problem hindering development.

--The company's vice president believes solar energy is not a feasible renewable energy option for Egypt due to high equipment costs.

--At this time, the company possesses no plans to explore the US renewable energy market because of political constraints and the belief the General Electric would "block any and all" business opportunities.

2. (U) ESTH officer met with El Sewedy (ES) Cables Vice President Hassan Abd El Salam Abd El Salam to discuss renewable energy (RE) issues in Egypt. ES, an industrial conglomerate involved in manufacturing power cables and electrical products across the Middle East, launched a subsidiary called El Sewedy for Wind Energy Generation (SWEG) in October 2008 to take advantage of an Egyptian government (GoE) decree to increase domestic renewable energy development. (Note: The GoE has established an official target that 20 percent of the country's electricity consumption will come from RE sources by 2020 - modeling its plan directly on a European Union proposal to achieve the same goals. End Note.) Abd El Salam oversees SWEG's operations and was the driving force behind business deals including the purchase of a 30 percent stake in Spanish wind energy equipment manufacturer M.Torres Olvega and a joint venture project with German wind town manufacturer SIAG. Both of these deals were designed to give SWEG greater leverage to pursue wind development projects in the Middle East and beyond.

Wind is the Wave of the Future

3. (SBU) Abd El Salam foresees tremendous wind potential in Egypt and has led SWEG efforts in building an industrial compound in the Red Sea town of Ain Sukhna to construct wind turbines, wind towers, and rotor blades. "Saudi Arabia has oil, Qatar has gas, and Egypt has the best wind conditions in the world," he asserted. He estimated that the Suez Gulf coastal area - starting from the city of Zafarana (where a 550 mega watt wind farm is currently operating) and stretching to the southern town of Gabal El Zeit - could annually produce 20 gigawatts of electricity solely from wind. "We don't have any space restrictions," he explained, referring to the fact that most of this area lies in the desert. Given recent technology developments, new wind farms could run for 20 years with only "minimal" upkeep. Abd El Salam predicted that wind-generated electricity would eventually cost less per kilo watt hour than fossil fuel sources. In response to ESTH office inquiry about environmental concerns for wind farm development - noting

government plans to study bird migration in the Suez Canal area, Abd El Salam said the issue was a non-starter. "This is a stalling tactic" from the government, he stated without elaborating beyond a claim that no bird deaths have occurred since Egypt's largest wind farm - Zafarana - began operating in 2004.

But Many Problems Await Development

14. (SBU) The biggest obstacle hindering wind development is the lack of government support. Abd El Salam repeatedly returned to this theme, voicing his frustration with Electricity Minister Hassan Younes and the Ministry-controlled New and Renewable Energy Authority (the main administrative body for all domestic renewable energy projects). He ticked off a long list of items the Ministry had failed to back: relaxing customs to ease the importing of raw materials for wind equipment; encouraging domestic companies to manufacture wind equipment by granting tax breaks, and moving to a feed-in tariff system (which guarantees power grid access and sets purchase prices based on the cost of renewable energy generation). As a result of what Abd El Salam perceived as government

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"inaction," he explained SWEG was delaying the opening of a new wind turbine factory and was unsure when operations would begin. Instead, SWEG plans to explore business opportunities elsewhere and mentioned South Korea, Brazil, and unnamed African countries as possibilities. The company is also negotiating with the Italian government to sell wind equipment, manage a yet-to-be built 300 megawatt wind farm, and sell the electricity generated back to the government - all in Italy.

Solar Not in the Cards

15. (SBU) Despite Egypt's location in a "sun belt" area where it receives sunshine from nine to eleven hours daily, SWEG is pessimistic about solar energy development and does not see it as a viable business option. Abd El Salam noted that, in the absence of a significant breakthrough in solar technology, SWEG would continue to view solar equipment as a costly investment. He estimated that wind and geothermal equipment currently costs four to five times less than solar. While SWEG plans to track solar technology development, "we will not touch it" anytime soon, he added.

No Plans to Enter the US Market

16. (SBU) SWEG has no plans to pursue wind energy opportunities in the United States at this time. Abd El Salam explained that political pressure was "too strong" against foreign companies seeking entry into the US renewable energy market, and intimated that the USG might take protectionist measures to stop companies like SWEG. Abd el Salam also stated that General Electric would "block" any entry into the US renewable energy market but offered no evidence or explanation of why he believed this. The combination of these two factors had led Abd El Salam to direct SWEG's business exploration activities elsewhere.

¶7. (SBU) Comment: Abd El Salam's downbeat analysis echoes what private industry consultants and even GoE officials have said about the renewable energy situation in Egypt. A lack of government leadership has hampered efforts to commission new wind farms along the Suez Gulf area. As a result, it is unlikely that Egypt will reach its 2020 goal, of deriving 20% of its electricity consumption from RE sources - wind (and to a far lesser degree, solar) forms approximately 1% of its current energy production. Nevertheless, any solution to increase RE development in Egypt will likely include SWEG as it has positioned itself as the country, and perhaps the region's, leading wind energy company.
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